Taste Holdings acquisitions underpin its long-term growth opportunities

In the past 18 months Taste Holdings had secured the exclusive southern African development agreements for both Starbucks Coffee and Domino's Pizza, which has underpinned its long-term growth opportunities, CEO Carlo Gonzaga said.

Carlo Gonzaga, CEO Taste Holdings, doing what he enjoys most, being hands on and serving a customer at a Starbucks store in London.

Announcing the interim results to August 2015, Gonzaga said the group had also acquired Arthur Kaplan Jewellers and Zebro's Chicken. He said management would, with these significant opportunities, be directing its short-term focus on these new businesses in the stable.

However, he warned that launching Starbucks and Domino's Pizza would have an impact on short-term earnings in the food division, but these were opportunities with sufficient strong long-term growth potential to warrant the investment and associated short-term earnings pressure.

The Arthur Kaplan acquisition ensured the group was southern Africa's leading retailer of luxury Swiss watch brands and introduced Montblanc writing instruments and accessories in two of the 10 outlets as well as Longines in an additional store. The runway for organic growth in the Arthur Kaplan business was proving itself and a premium watch and jewellery store was planned for 2016.

R226-million rights offer

In the period under review, the group also announced it was planning a R226-million rights offer in which existing shareholders had already committed more than 70% of the value. This capital would be used to roll out the first 12 to 15 Starbucks outlets; establish the brand and grow the Arthur Kaplan footprint.

Gonzaga said this would probably be the last equity raised for these opportunities, as future Starbucks growth would be funded with internally generated cash and debt.

In the period under review, Taste boosted revenue 62% to R490.3 million; gross profit 61% to R182.4 million and system-wide sales 7.2% to R800 million. Core earnings before interest, taxes, depreciation and amortisation (EBITDA) declined to R17.5 million (2014: R23,3 million) due to launching Domino's Pizza in November 2014.

Core headline earnings a share declined to 0.1c (4.3c).

"These growth opportunities are significant. It is not often in a company's journey such long-run chances occur simultaneously - or even at all - and they will require capital in the next two years even if the short-term effect is negative," he said.

"The inherent uncertainty when launching new mega brands has meant, historically, that these are executed by private companies, out of public scrutiny. Yet therefore they are also out of reach of public equity holders and Taste believes its responsibilities are to the long-term value creation for shareholders," Gonzaga said.

Roll-out nearing completion

In the food division, the Domino's Pizza roll-out was nearing completion and, while the impact of training stores, less-than-optimal controls and a new business in the corporate stores would continue in the current year, Gonzaga said this would be minimised in the new year.

Management would take the lessons learnt in rolling out Domino's Pizza when rolling out Starbucks. Gonzaga said the intention was to roll out the coffee brand in a "measured and considered manner" to mitigate the execution risk associated with a new brand launch.

He said by May 2017 management would hold itself accountable to shareholders for having established the first handful of Starbucks Coffee outlets; built sustainable human capacity for future growth and established a robust store economic model before capitalising on the market opportunity for 150 to 200 outlets.

"Bedding down Zebro's Chicken was ahead of expectations, while The Fish & Chip Co. was still under pressure. However, management's plans to dilute its effect on the group is paying dividends," he said.

Focus on efficiencies

The capital expenditure invested into the group's distribution and manufacturing capabilities had also produced world-class facilities and it nearing completion, the division would focus on efficiencies.

Gonzaga said the jewellery division had achieved sound same-store sales, while the Arthur Kaplan opportunity was "working out better than planned by putting more brands into the customer experience". A new store would open next year.

Looking ahead, Gonzaga said weaker consumer sentiment, low disposable income growth and rising inflation were ever-present economic headwinds. The next six months would see the group laying the foundation for the Starbucks launch; shifting gear in Domino's Pizza from conversion to new store and sales growth; executing some of the Arthur Kaplan opportunities and continuing with the efficiency improvements in the new food service facilities.